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TRANSCRIPT OF PROCEEDINGS **VOLUME 1**

COMMISSIONERS PRESENT: Elizabeth B. 'Lib' FLEMING, *CHAIRMAN*; and COMMISSIONERS David A. WRIGHT, G. O'Neal HAMILTON, Mignon L. CLYBURN, Randy MITCHELL, and Swain E. WHITFIELD.

ADVISOR TO COMMISSION: Joseph Melchers, Esq.

STAFF: Charles L.A. Terreni, Chief Clerk/Administrator; Jocelyn B. Boyd, Deputy Clerk; F. David Butler, Jr., Senior Counsel; James Spearman, Ph.D., Executive Assistant to the Commissioners; and Jo Elizabeth M. Wheat, CVR-CM-GNSC, Court Reporter.

APPEARANCES:

SHEALY BOLAND REIBOLD, ESQUIRE, acting as non-staff certificator

CATHERINE HEIGEL, ESQUIRE, along with *JIM ROGERS, KEITH TRENT, and ELLEN RUFF,* presenters, representing DUKE ENERGY CAROLINAS

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Please note: PowerPoint presentation (hard copy) and legal citations submitted by the Company are attached hereto.

P R O C E E D I N G S

CHAIRMAN FLEMING: Please be seated. Good morning. It is a pleasure to have you all with us today for this allowable ex parte briefing. We look forward to hearing what each and every one of you has to say, and especially Jim Rogers, we're delighted to have you here with us.

And I understand that you are going to be providing us some perspectives on key industry trends, climate change, and an update on the new base generation plans that you have.

And I understand that notices have been given and posted on our website, and that all attendants have been informed of the certification that they must sign at the end of the meeting.

So now that I've taken care of all the specifics that I have to give you, we look forward to hearing from you all at this point.

MS. HEIGEL: Thank you, Madam Chairman. If I may, I'll make just a few brief, opening remarks.

CHAIRMAN FLEMING: Sure.

MS. HEIGEL: We do appreciate the Commission's time and the opportunity to be here today to discuss what we think are some very important issues facing our industry, and trends that we're

seeing, and actions that we're taking in regard to updating some generation planning that we are engaged in.

With me today -- I'll introduce the panel -- is our chairman and CEO, Mr. Jim Rogers; our chief strategy officer, Keith Trent; and our president of Duke Energy Carolinas, regulated utility, Ellen Ruff.

The purpose of today's briefing is to highlight for the Commission some of these issues and essentially provide kind of a State of the Union address of sorts to the Commission, and to encourage questions from you all and engage in a dialogue on some of these issues that we think are very important.

We do encourage questions as we go through our PowerPoint presentation, and I believe you all have hard copies of the slides in front of you, so as the questions come to mind as we go through things, please do not hesitate to interrupt and ask your questions, and certainly we'll take any remaining questions at the end of the presentation.

I would like to just remind everyone that we do have a number of open dockets, but two that I would specifically mention and just call attention

to, and one is the annual fuel proceeding, which was just heard and is currently pending before the Commission, and also our energy efficiency proceeding which was heard in February and is still pending. So we will certainly do our best to stay away from any issues that are currently pending in those dockets for decision before the Commission. We do, of course -- as you would imagine, many of these issues are inextricably linked, and so we do talk about issues that relate, but none of those are currently before this Commission for decision.

Lastly, let me just emphasize that we're not here to request any action by the Commission. This is really an informational opportunity. We've had the opportunity to do this in some of our other states, and look forward to doing it in the remaining jurisdictions where we have not yet been.

With that, I'm going to go ahead and turn things over to Mr. Rogers, and I will give him the clicker [indicating].

MR. ROGERS: [Indicating.] That's giving me way too much control, and may be beyond my technical capability.

First of all, let me thank you all very much for giving us an opportunity to be here today. We

really appreciate the opportunity to serve the people of South Carolina, to serve the businesses and families of this State. Job One for us is to provide affordable, reliable, clean electricity 24-by-7.

What I'd like to do this morning is to share with you and to really look out to the future to put in context where we see we're going and the issues we're going to face going forward. Within our company we did a 2050 scenario to take a look at how our system will evolve between now and then. It's really critical to look out such a distance, because this is a long-term business. When we build power plants, they're plants that last 50, 60, 70 years. It's a very capital-intensive business. So it's very important for us to look out and develop scenarios into the future.

One of the ah-ha's that we had when we looked at our 2050 plan was that virtually every plant that we operate today will be retired and replaced by 2050. And that assumes that our nuclear plants, which were built in the '70s and '80s, we are not able to extend the licenses further. And our oldest plant license expires 2033 and will be 60 years old. So one of the challenges is, can we

extend the lives of those nuclear plants beyond 60 years? And there's a tremendous amount of research being done as to whether you can. But if, at the end of the day, we can't, what that really means is we have between now and 2050 an opportunity to rethink what we do, how we think about the business, what kind of plants we build, how we locate them, and really to think about our infrastructure in a fundamentally different way.

I think one of the things that occurs to us as we think about that is, in the past, companies built plants -- each company built individual plants. One of the things that we are exploring is the possibility of building regional plants over time, where a number of companies join together and participate in the building of the plants. And particularly with nuclear plants, which is going to be one of the keys, we believe, to our success going forward, building new nuclear plants, doing them in planning on a regional basis in our judgment might turn out to make a lot of sense, even though that's different than the way we approached it when we built plants in the past.

Think with me for a moment about the history of our industry. In the 20th century our mission

was to provide universal access to electricity to all the people in this country, and we achieved that objective. And in fact, the National Academy of Engineers did a study at the end of the twentieth century and came to the conclusion that the greatest engineering achievement in this country was the electrification of America. More than putting a man on the moon, more than the Internet, more than the auto, the fact that we were able to bring electricity to people throughout our country is critical. That stands in stark contrast as you look around the world, where there's about 1.6 billion people that today have no access to electricity. So we've done that job. That's part of our past, that's part of our history.

I share that piece of history with you to frame what I think will be our challenge going forward. One of the challenges is to -- if we indeed have to retire our plants -- is to build, in a 40-year period what has been built in a 100-year period. The second challenge, I believe, and an aspiration that we have, is that as we build this new fleet of plants, that we focus on decarbonizing our fleet, because it appears to be the desire of our country and some of our governmental officials

to build a bridge to a low-carbon world. We support the building of that bridge, but I think that becomes an important thing for us to look at as we build the bridge.

So we have an aspiration at 2050 to decarbonize our fleet. We believe nuclear is going to be the key. We believe coal will play a role but only if we can get carbon capture and sequestration. We believe gas will play a role. We believe other renewables will play a role. But the main burden is really going to be on nuclear, because it provides 24/7 electricity with zero greenhouse gas emissions. So one aspiration is to decarbonize our fleet.

The second aspiration we have for the 21st century is to make the communities that we serve the most energy efficient in the world. We see this macro trend sweeping our country. I just returned from an EEI board meeting where I saw detailed presentations on the future of our industry changing, and the changes that are occurring across the country in building codes and appliance codes, in lighting coding. So you are going to see, just by what is going on, our economy becoming increasingly more efficient.

So those are the two aspirations that I share with you. Before I talk specifically about the issues -- before I talk specifically about these issues, let me leave you with several questions that, from my perspective, I would welcome any comments or thoughts as we go through our conversation this morning. One of them is -- I don't get a chance to be here very often, and so one of the questions I always have in my mind is, are we doing a good job as a company? Is our team doing a good job providing information to this Commission? Based on what you hear in the communities here, are we doing a good job of working with our customers? What can we do better as a company? What is important to y'all with respect to the future of our business, that we should be factoring in our planning and considering in terms of how we do our business?

So I say that to you as a set of questions as we walk through our presentation, I hope y'all have an opportunity to discuss a little bit or answer those questions, or challenge us with respect to things you would like to see us do.

Let me quickly do the industrial trends that we see, and then turn it over to Keith. This

October, I will have been a CEO in this industry for 20 years. That only says I've survived a long time. But to me, the insight that I gained is this: This is probably the most uncertain time that I've seen in our industry during that period of time. Uncertain in so many different ways. There's a lot of uncertainty with respect to future costs.

I believe we're in a rising cost environment. We've seen a huge jump in coal prices, primarily driven by the worldwide demand in coal, driven primarily in China and India. We've seen gas prices go all the way up to $13 and $14 and come back down to $7 and $8 in just a six-to-eight-week period. So we see extreme volatility in natural gas prices. We see a worldwide boom in commodities. We are building, around the country, a couple of coal plants, as you know; we're planning a nuclear plant; we've had gas plants on the drawing board. The demand for steel and concrete and piping and just for contractors has been an incredible boom. We've seen a significant rise in prices there.

There are 30 nuclear plants being built around the world, and yet there's only one place in the

world we can do reactor forging, and that is in Japan.

So we believe we're in a rising cost environment. We are blessed because 96 percent of our electricity comes from nuclear and coal, and we are not subject to the volatility here from natural gas, and I think that's going to prove an advantage for our customers. But clearly we are in a rising price environment.

There's also great uncertainty with respect to our future demand. Historically we can look back and say demand has grown 1-1/2, 2 percent, 2-1/2 percent, and be within the ZIP code. But the uncertainty with demand, I would describe it this way: First of all, if you had new building codes and new appliance codes, that will have some impact on demand. Just the changing out of lights to CFL will have some impact on our future demand.

So at the same time there will be downward pressure on our demand, I believe, I think the upward pressure will come with plug-in hybrid electrics, with electric cars. We have relationships with GM, Toyota, and several other major manufacturers, and we see clearly that electric cars are probably going to emerge as a

very important product for consumers in the United States. If you put it in the carbon context, in the U.S., utilities emit about 40 percent of the CO2, the transport industry or auto industry emits about 30 percent. And if it is our country's mission to eliminate our CO2, if you decarbonize our electric supply -- which we are on the road to do -- and you move to plug-in hybrids, it allows decarbonization of that, and it also allows us to wean ourselves from foreign oil because we can produce the electricity in the United States with nuclear and coal and renewables and at the same time really reduce our carbon footprint. But that will increase the demand on our system. So again, that's one of those hard to measure how fast that evolves, but certainly as you plan out 10 years, 20 years, 30 years, you can clearly see how it would play an important role.

With respect to environmental uncertainties, I talk about carbon legislation like it's an automatic. It's not an automatic. We don't know yet, although most of the experts tell us there will be legislation in '09 or '10 on carbon in this country and that it will be cap-and-trade. And Keith will talk more about that in a moment. With

respect to sulfur dioxide, nitrogen oxide, and mercury, EPA has passed a number of rules, all of which have been appealed to the courts and the courts have really overturned them. And it leaves us with great uncertainty in terms of how and what we do there. The challenges of fossil, building a new coal plant, are pretty tough, because there's been a movement in this country to ban coal plants. So every plant that we propose, we've had a lot of opposition to it.

But as I sit here today, I believe that we are going to modernize our fleet. I think we have no choice there, as I look to 2050. I think the second thing we're going to end up doing is modernizing our grid, and I know we have briefed you on what we call our utility of the future or moving from an analog grid to a digital grid. And I think that will be critical as more and more customers demand energy management options. Especially in a world of rising prices, customers will want more control. And we see Wal-Mart and Lowe's and other competitors wanting to develop and sell products to our customers that they can use, and they can only use these products if we have married IT to our grid so that they can plug in

energy technology -- it's sort of the marriage of IT and ET -- that would transform and give them the ability to better control their use of electricity.

I'm excited about the challenges that we have, because, in a sense, it's almost like going back 100 years, because the technologies that we'll deploy, the things that we will do, will be transformative over the next five to ten years. And it's in this period now that will allow us to really set the course for the future, and the decisions that we make now are so critical.

And my last point is that, while we debated here in South Carolina and in state commissions across the country, I believe in this historic presidential election that, regardless of who you talk to, energy and environmental issues are one of the top three issues that are being discussed. So there's going to be a great national conversation about this, and I think you're going to see significant action both on the federal level, as well as on the state level, that could transform and change the fundamental way our industry -- and in ways we can't yet fully anticipate.

But with that, I will stop and turn it over to Keith to talk to you a little bit about climate

change and the things we are trying to do to protect our customers from draconian legislation -- and there has been some proposed in Congress. Thank you, very much.

MR. TRENT: Thank you, Jim. And I might pause. I don't know if there were any questions you wanted to ask of Jim now, or we can hold that until the end. But I wanted to make sure we pause for that.

CHAIRMAN FLEMING: Do you want --

COMMISSIONER MITCHELL: Yes, I have a question. I have heard within the last several years -- well, I'll say within the last year and a half -- it discussed that the population growth particularly in the Southeast, at different seminars, that by the year 2030 -- I've even heard below the Mason-Dixon line that 45 percent of the people in the United States could live below the Mason Dixon line. We also have, as we all know here, a problem with the world economy at this time. And with such factors as that, and also, as you stated, in our past history, years back, a number of nuclear plants that were built and the demand went down, with all those factors preying on us at the same time, how can we be sure of what we

are really going to need here in the particular Southeast within the next 15, 20 years? What other factors might play into a decision that maybe we haven't discussed here?

MR. ROGERS: Commissioner, you have framed the question very well. And projecting load is very difficult to do because of the factors you just ticked off, because the migration of people to this region of the country is almost unprecedented, and we see the projections and they are just as you describe them. So we need to be prepared to have affordable, reliable, clean electricity waiting for these people as they move here, because as they move here it brings more commercial development, it means more jobs, more infrastructure build-out. So that becomes an important -- because that's Job One for us, is to make sure there's access to electricity.

I think that fact is probably the most dominant single fact, but there is some uncertainty with respect to it. It will have the greatest single impact. Changing in building codes, changing in appliance codes will have an impact harder to measure and probably not in the next five to ten years, but probably more -- because of the

building of new buildings and the turnover of existing buildings -- that would be more out 10, 15, 20 years. Plug-in hybrids, while they will have no impact or minimal in the next three to five years, could have a significant impact at 15, 20, and 25 years.

So as we plan -- when we plan to build a plant that's going to be there 40 to 60 years, we have to take into account all those various factors. And that's why, in part, this notion of several companies coming together and building regional plants might be a smarter approach over time, because it allows us -- no one company to put all their eggs in one basket. It allows some risk diversification. It also allows us to build the plants in a way where we are allocating the cost across a broader customer base, so the incremental impact on consumers is less, but it allows us to adjust quicker to changes.

In other words, if we jointly build a plant based on looking out five years and beyond, and it's shared, the output, it gives us a little more flexibility. And I think one of the keys is to think through how we can build in flexibility. If some of the things you have suggested or I have

suggested don't turn out exactly as we have forecast, then it gives us a little more flexibility.

So I would urge us to aggressively plan, but also think of ways to do this to minimize the cost increases and smooth them out over time, and to build in flexibility, if the world doesn't turn out as we forecasted it.

COMMISSIONER MITCHELL: And just as a follow-up, you mention a four-to-five-year period now. Is that what might be considered by the industry as a time for regrouping your facts and just taking an overall look at this thing down the future, or is that pretty much recognized by other parts of the industry? This four-to-five-year period you mentioned is sort of an open sketch period for what might come down the --

MR. ROGERS: I think everybody -- and this is my judgment as I watch across the country. There's been 60 coal plants canceled across the country. There's been delays in getting nuclear plants going forward. As you know, we filed our application with the NRC in December and we are waiting. In some of the feedback we're getting from the NRC, they have a so-called expedited process that takes

40 to 42 months. And they are saying this might take longer.

As we talk to our suppliers in terms of the design of the nuclear units, some of them are not -- won't have their design complete by '12. And if you remember the history of trying to start to build plants before the design is completed, it creates a certain uncertainty, especially with respect to cost. And then there's the whole thing -- some of the major builders are building two or three plants in China, and they're not in a hurry to build a plant here, because they have a different set of requirements there.

So when I add all this up, I think it's very important -- and given the uncertainty of the environmental rules, the carbon rules. So what has happened, as I see -- and I wouldn't describe our industry has a deer in the headlights, okay? But I see everybody stopping and saying, "I'm not really going to move forward on this or that," and so they default back to building gas plants. Natural gas has become like the crack cocaine of fuel in our industry, because when you block a coal plant or a nuclear plant and all of a sudden the demand -- you can go put a gas plant down in three years and get

the gas in there, but that drives prices up and subjects customers to volatility. So there has been a bias not to build base-load because the impediments have been so great.

My judgment is that in a period of that kind of uncertainty, I believe when I look at 2050 we need to be building base-load plants today -- and we are doing that, with our Cliffside plant, with our Cherokee County plant -- but another approach, because we need more, if you think about retiring and replacing, might be, in this period of uncertainty, a number of the companies in South Carolina and North Carolina to come together and build regional nuclear plants. I think that might be the better way forward, to assure that we get -- we plan properly, because it takes ten years from the day you say you want to do it to the day you can actually produce electricity. I think we need to be acting now in this period of uncertainty, but a reasonable approach might be a regional approach during this uncertain period.

So I throw that out to you as an idea that is so different than the way we have approached it in the past. I believe it might be a way to move forward in a period of uncertainty, that will

assure that when these people move here and when we get the demand materialized as you've described, that we actually have the capacity available and there's no hiccup in terms of it being there.

COMMISSIONER MITCHELL: Thank you.

COMMISSIONER CLYBURN: [Indicating.]

COMMISSIONER HAMILTON: Madam Chair.

CHAIRMAN FLEMING: Commissioner Clyburn.

COMMISSIONER CLYBURN: Yes. My colleague preempted my demand uncertainty question. I underlined three things that you mentioned. The other one is -- and you might have answered this when you affirmed that the 60 coal plants were, you know, had been canceled across the nation. I was going to ask you in terms of public opposition to different types -- you know, different types of plant, which seem to be the most fought, the nuclear side or the coal side? Which one appears to have the most resistance?

MR. ROGERS: That is a very good question. And I'm not sure I'm smart enough to rank them. But if I may, Commissioner, share with you my personal experience, five years ago I was trying to build a very small gas plant in the middle of a cornfield in Indiana. We ended up stopping

construction for one year on the plant, because the farmers thought it would have some impact on the locusts. And it was delayed. I have tried -- I have -- in building Cliffside, we have had incredible opposition to that. In the courts, they have collaterally attacked a valid air permit that we have, they have appealed the Commission action with respect to it in North Carolina. We have also -- and they've actually picketed my home on a regular basis.

COMMISSIONER CLYBURN: I guess that's, you know, the price of being a rock star.

[Laughter]

MR. ROGERS: Well, I'm not sure my neighbors are excited about me being in the neighborhood. They've been too polite to say that. But I think that -- I see the experience I've had on gas plants, I've seen the experience when I tried to build coal plants, and even on nuclear the fact that we've announced we're going to build nuclear, we've already seen opposition to that. We build transmission lines -- I've had experience where I started to build a major transmission line, and I spent four years trying to get it built, and couldn't get it built.

So this is a very difficult time to build anything. And even people that are advocates for wind -- and you've heard the whole story of Cape Cod, where people who espouse strong desire for renewables, "but not renewables that I can see." So it's difficult for me to say there's more opposition to one versus the other.

You've heard the expression, not in my backyard, NIMBY. And there's another expression called BANANA. Well, I've heard a recent one called NOPE, not on planet Earth. So I think there's just opposition to building anything, regardless of the pluses and minuses, and even today I listen to a lot of people advocate -- and even Boone Pickens -- advocate for renewables and wind, specifically, but the same people who are advocates for it oppose giving imminent domain to build the transmission to actually get it to market, which says why and how can you be an advocate and not want to get it to market by imminent domain? Because it could take six to eight years to build a transmission line.

So I think the challenge that we have, that you have on the Commission and that we have, is to carry out our responsibility to make sure there's

affordable, reliable, clean electricity available. That's our job. Your job, our job, working together to get that done. And I think we just have to be prepared to expect opposition to anything we do, because I think there will be opposition to everything that we do going forward. And we just have to have clarity about why it's important to the public and move forward with it, because at the end of the day it's our responsibility to stand and deliver.

COMMISSIONER CLYBURN: Is there any way -- and you know, people criticize Congress. Of course, I have a personal stake there.

[Laughter]

COMMISSIONER CLYBURN: But, given some of the discussions and the tenor here, I don't know that that would be -- well, I'll just ask the question. I guess I'm wondering if you see or if in other communities -- because you've got a fairly large footprint -- are there benefits to attempting to have communitywide conversations, you know, as candid as we can about the delivery, about projections and the delivery of this resource that we've gotten pretty spoiled -- you know, you mentioned the 1.6 billion people worldwide that

don't have the advantages. You know, the people I see in opposition, they seem to get dressed and -- you know, they look fine, so they must get dressed in light. You know what I'm saying? I'm being a little flippant, but I think you know where I'm coming from.

But I guess I'm wondering, do you see any type of forum or the ability or a need to attempt a conversation in this environment, if it gets to be a little volatile and --

MR. ROGERS: Commissioner, that's a great suggestion, and I firmly endorse it. We need not just a national conversation about the trade-offs on energy and environment and what our policies are -- and we really need to get beyond the bumper-sticker slogans and the simplification of it, because I believe the American people are smart enough to really understand the trade-offs and what the costs are and what the benefits are. I also believe, while that needs to happen on a national level, that needs to happen on a state level. It needs to happen in the communities that we serve. Because at the end of the day, people get it. And it's not the first thing on their mind. In fact they take our product for granted. When people

throw the switch, they don't know whether that electricity comes from a nuclear plant or from a coal plant or a gas plant or a windmill. And the fact of the matter -- in a public hearing, once, a women told me -- I was talking to her about the need of building a coal plant, and she says, "We don't need coal plants, because don't you know, electricity comes from the wall." And so we have a lot of education that we've got to do with people, and particularly as we plan and we're talking about building $6 billion plants and $8 billion plants and why nuclear is important, we just need, as you have suggested -- and wisely suggested -- we just need to sit and have a conversation, so people really understand. But at the end of the day, we still have to make decisions and move forward.

COMMISSIONER CLYBURN: My last question -- because I can feel my Chairperson looking at me -- my last question is something that I've been thinking about ever since it was first reaffirmed about that one reactor forging site in Japan? And again, you know, I'm smart enough to know that we're talking about an incredible amount of infrastructure, you know, monies and the like. I guess I worry -- when someone says there's only

one, I worry about a lot of things. I worry about, you know, the time horizon in terms of completion of projects, I worry about costs because of monopoly pricing. Is there another forging site on the horizon? Is anyone talking about that, or is anyone whispering about that?

MR. ROGERS: No. I mean, to put it in context, we haven't built a new nuclear plant in this country in 30 years. The infrastructure we had in this country to build nuclear plants basically isn't here anymore.

And as I mentioned, there are 30 nuclear plants being planned, developed, and built around the world. And actually, we've had contact with others in other countries that are really looking at building new capabilities.

It is so uncertain in the U.S., we're not really seeing that kind of development here. What we're seeing is -- I mean, I'll give you a for-instance. I know in Korea they're looking at building a reactor-forging capability there. You look at the number of nuclear plants that are going to be built in China and other places. So at the end of the day, there's going to be a strong demand, and I think there will be other

alternatives to this one forging plant in Japan, but it's not clear to me that it will be in the United States.

CHAIRMAN FLEMING: Okay. Commissioner Hamilton?

COMMISSIONER HAMILTON: Mr. Rogers, happy to have you with us, sir.

MR. ROGERS: Thank you.

COMMISSIONER HAMILTON: I've got a question kind of following up on Commissioner Mitchell's question, to go just a step further. In the past month or so, we've seen a lot of indication of things across our desks, and publications, that Duke Carolinas is actually out seeking additional wholesale customers, very vigorously, it looks like. And my concern is that you've laid out an extremely good case for new generation of some form, or conservation. But what effect will the wholesale market that you are working on in the Carolinas affect our customers that we regulate as Commissioners? What effect will it have on these customers? Where is this new -- if you need new generation, where is it coming from for the wholesale people?

MR. ROGERS: I look at the wholesale business

and -- the customers that we've pursued in the wholesale area are customers here in South Carolina.

COMMISSIONER HAMILTON: Right.

MR. ROGERS: And I just view it as another way to serve retail customers here in the State and another way to get electricity to them that is affordable, reliable, and clean. And quite frankly, that feeds back into my earlier observation. If there are certain customers today that are wholesale customers -- but I really think of them as retail, and I would suggest that I bet you think of it that way to -- if we can provide lower rates to them than their historical provider, that's a good thing, because it means lower rates for just another part of the State of South Carolina. If it stretches our resources a little bit and causes us to build a plant, well, when you think in the context that we're going to have to modernize our fleet anyway and replace our fleet, it just allows us to accelerate it.

But my important point here is that we are striving for and your all's mission is to make sure everybody has affordable, reliable supply. This is just another way to make that happen, to families

and businesses. But also I think it begs the question on the regional planning. It begs the question on why don't we come together as companies in the State and all participate in a nuclear plant. Rather than having one company build one or two companies, why don't we build regional plants? And I think over time that will allow some mitigation of prices across the State.

But a little wholesale competition within the State is a good thing, because it makes us all a little better, and at the end of the day that's good for our customers. But I think -- I wouldn't look at this wholesale totally in an isolated way. I would look at it in a way of over 10 to 20 years, as we move to modernize our fleet and we move to more a regional approach, I think that combination of things should be looked at together.

COMMISSIONER HAMILTON: Okay. That was a very eloquent answer, but is there a yes or no on what it will do to the retail customers that we now serve, that's our responsibility at this date?

MR. ROGERS: I think it translates into lower prices for retail customers.

COMMISSIONER HAMILTON: Thank you, sir.

COMMISSIONER WHITFIELD: Madam Chairman.

CHAIRMAN FLEMING: Yes, Commissioner Whitfield.

COMMISSIONER WHITFIELD: I've got a question. Mr. Rogers, I've got one kind of follow-up. You mentioned this earlier to Commissioner Mitchell and I think earlier in your opening remarks and to Commissioner Hamilton now, and I hope this question is allowable -- and you all can please stop me if it's not. But regional plants that you mentioned, have you actually met with or had discussions with other investor-owned utilities or not-for-profit utilities, in this regard? Have you all actually held meetings, got any plans going? Can you answer that?

MR. ROGERS: I think the best way for me to answer that is that we have reached out to other utilities in this State and in this region, and suggested the idea that we need to do this and think about this differently than we have thought about it in the past, and that we need to think about this in a way that strengthens the electric grid in this State and in this region. And we've had some conversations. And that would be my characterization of it.

COMMISSIONER WHITFIELD: Okay. Well, I didn't

want to -- I just wanted to follow up on Commissioner Hamilton's concern of where the generation might come from, and you've mentioned several times -- two or three times, at least -- this idea of regional plants, and I wanted to see if that would alleviate some of his concern and also push this regional idea you've mentioned.

MR. ROGERS: I think at the end of the day, a regional approach -- and this gets back to Commissioner Mitchell's point -- I think in an uncertain time that we're in now, it makes us all stronger coming together and standing together. It allows us to handle the risk better. It allows us to make sure we've got adequate supply when it's needed. And it doesn't put an undue stress on anybody, because we're all working together as one. And I think at the end of the day, that is something that's really critical -- will be critical to our success. And I put all of that in the context of knowing, by 2050, we're going to have to retire or replace everything we have.

And what I am suggesting -- you know, I won't be here in 2050. Well, maybe. I clearly won't be in this job. I'll be in a rocking chair and y'all can talk to me about it. But I think that now is

the time to change our thinking as we start down a building cycle of building new base-load plants. Now is the time to ask this question, debate it a little bit, and think about it. Now is the time to do it, rather than doing it the way we did it before, because I think it gets to Commissioner Mitchell's point, we just have so much more uncertainty today. And this at least appears to me personally as a better way.

CHAIRMAN FLEMING: Okay. Thank you. If there are no more questions, I wanted to ask a couple of questions.

There's been no mention about what has been termed the perfect storm. And it seems to play heavily into your plan of building in 40 years what took 100 years in the last century. And that is the workforce and the cost and availability of materials to accomplish that. And as you mentioned, there's only one place in the world for the forging -- well, the reactors, in Japan. What is being -- would you address that and how it does impact that, and what the industry, and your industry in particular, is doing about both of those issues, or where you see that going? Because as I understand, one of our biggest competitors is

going to be China, that has a major building plan for this century, as well, that far out-shadows ours.

MR. ROGERS: Madam Chair, let me start first with people, because that's the first place to finish, because -- first place to start, and probably the place to finish, too, because what we have to do, given the demographics in our company, we're looking at 30 to 40 percent of our people retiring over the next five years. So we're actively out recruiting people within our company. And this is going to be a great opportunity for people to join our company, because they're going to have opportunities to advance faster than they've ever had before, because we have so many people leaving. So we have a huge IQ that we've got to transfer from our existing people to these new people, and we have a lot of programs within our company -- and at some point we would be delighted walk through all the things we're trying to do to recruit and make sure we have the talent within our company to do what we do today, tomorrow, as well if not better than we're doing it today.

With respect to the building of plants, we

have spent time -- and that's why it's important for us to get started building base-load plants in this country, so that we create a market for base-load and we develop the contractors and the skilled laborers and the construction workers so that we have a steady development of contractors that can do that work, and so delaying building plants -- which a lot of people in our industry are doing, because, as I mentioned, they're turning to the crack cocaine of fuel, which doesn't take -- it's fundamentally different building that kind of plant versus a coal or a nuclear plant. We need to be building these base-load plants, and we need to have the demand so that we attract the talent from around the world.

As it turns out, I just returned from China for the first time. My grandson asked me -- well, I asked him when he graduated from high school, I said, "If your grandfather could take you anywhere in the world, where would he take you?" And he said, "I'd like to go to China." And he's in school -- this is his first year of college, and actually he's going to be far more productive than I've been, because I'm a lawyer by training and he's going to be an engineer, which he's going to

build things. And I hope there are more Americans that are going to school to be engineers, to build things. But I took him to China before the Olympics, my wife and I did, and spent 12 days with him. And I was amazed at the speed, the scale, the scope, and what they are doing. And I went down the Yangtze River to the Three Gorges Dam, and they built a dam there that produces 18,000 megawatts. To put this in perspective, locally, that's the amount -- in that one dam, from that one dam, that's the total capacity that we have to serve 2.2 million customers here in the Carolinas, North and South Carolina. They did it from one dam.

But they did something that's remarkable -- and this goes to dealing with people -- they relocated 1.2 million people, moved them out of their homes and villages, and out of their neighborhoods, to build that dam. They had that kind of can-do attitude. And I was really struck with their can-do attitude. I was struck with the number of coal plants, and they actually had -- I was told that their national bird is a crane. I said, "A crane?" They said, "Look on the horizon, you see all those construction cranes?"

So, they are making things happen and building

things, and it reminded me a lot of our can-do attitude, and they're going to focus on environmental issues eventually, but they are moving 15 to 20 million people a year from the rural areas to the urban areas in the same way we've done in this country starting back in the 1800s, the migration from the farms to the cities.

So they are going to be a fierce competitor, but I actually think they can be a great partner for us in developing new technologies like carbon capture and sequestration, because they will just mandate it and they will scale it. And in this country, we talk about -- we're building one plant, Cliffside, in North Carolina, 800 megawatts. In the next eight years they're going to build 800,000 megawatts of coal plants. That's 1,000 Cliffside plants they're going to build. And they're going to have people that are going to be smarter building plants, because they are building plants. And anybody who's ever built anything knows you're smart when you build the first one, but you're a lot smarter when you're building the fifth one and the tenth one and the hundredth one.

So at the end of the day we've got to find ways to ally with them, we've got to find ways to

let them help advance carbon capture and sequestration technology. But I believe that we can do that, and when I came back, this idea of a regional plant approach so we're building today, we're moving it forward -- I came back with a greater sense of urgency about that approach, because I don't want our industry or our company to be sitting on our hands because we're not clear about the future; we're uncertain about the future, so we're delaying and postponing and not getting about the business. We've got to get about the business of building base-load plants and building nuclear plants. And if it takes a regional approach to really accelerate this, then that's what we really have to do.

So I came back with a greater sense of urgency about this than I had before, because I think we can do it in this country. And as I said to a friend of mine, when I look at what they're doing and I listen to debates we have in Washington and in the state capitols in this country, I believe we are becoming the chattering class and not the can-do class, and we need to be more focused on can-do and building these plants and planning for the future is a part of that.

CHAIRMAN FLEMING: Well, it is interesting, how do you balance what they're doing in China when you're trying to decarbonized our fleets here, which -- I do see that we all need to be working together to have some of the similar missions, because at the rate they're building over there, that kind of counteracts what you're trying to do here, as far as the decarbonization.

MR. ROGERS: Well, let me tell you kind of -- that's a really interesting observation, and I went there with that impression. Because, you know, you build 800 megawatts of coal plants, that's two and a half times the amount of installed capacity of coal we have in this country. And I know there are some people that have called for the shutdown of every coal plant in ten years -- I won't mention who that is. I bet you know -- which is totally unrealistic, because even if we shut it down and turned off all our emissions, for what great purpose?

They're focused on economic development. And I went to the cities and in 12 days there I only saw blue sky one day in 12 days. But I bet if somebody came to the United States in the 1880s or 1900, 1920s, and went to Pittsburgh or Detroit or

Chicago, and a European would say, "What a mess, they'll never clean this up. Look how they're ruining their country." But we cleaned it up.

And the hopeful thing that I took out of this -- and this is something I didn't know before I went. I would've never guessed it, but the number one producer of solar panels in the world today is China. Next year they will be the number one producer of wind turbines. And they get the fact -- and I read the China daily paper every day. The thing that amazed me, there were stories about energy efficiency and how they were building more efficient coal plants and tearing down old coal plants. I read a story virtually every day in that paper -- maybe it was just propaganda -- of how companies are trying to become more efficient in their use of electricity. And they are going to push toward plug-in hybrid cars, because they're bringing 25,000 new cars on the road every week.

So they get it. And I think that they are going to, at the end of the day, decarbonize -- when you see their skies and you see their environment and their rivers. We wake up every day and it's beautiful on a relative basis. They wake up every day where it's ugly and you can't see in

front of you and they cough and they have -- so I think they will make the transformation -- this is my belief, and maybe I'm just an optimist. But I think they get it more than we think they do.

CHAIRMAN FLEMING: So they will get there faster than we have done, is that -- they'll be working on both at the same time?

MR. ROGERS: I believe they are working on both at the same time. And think about how fast -- I mean, same geography as the United States. We have 300 million people; they have 1.3 billion people. They're doing this rural-to-urban much faster than we did it. They've scaled their economy with 9 percent growth over 20 years, economic growth every year, much faster -- if you could just see the skylines of all these cities -- and I believe they're going to go after this environmental thing with the same fierceness and determination and can-do.

So I came back here saying if we are -- if our reason for not accelerating is because they're not going to do it and it won't make any difference, I think we may have miscalculated, because I think they're going to do it. And they have a lot less arid [sic] land for the number of people that they

have than we do. So environmental issues are going to be, at one point, key to their economic development.

So I come out of all this saying we need new energy in this country, we need new ways of doing business. And in our business we can't keep sitting on our hands; we need to start to modernize our fleets.

CHAIRMAN FLEMING: What do you think are the biggest challenges facing the energy industry, electric industry, in meeting the missions of the 21st century?

MR. ROGERS: I think our greatest challenge is really convincing those in the state legislature, those in Congress, to come together, develop the regulations, the laws, the policy. We have no real energy policy in this country. We have no real environmental policy that hangs together, that is cohesive.

We need, at the federal level, at the state level, we really need a clear roadmap. Our job is to provide solutions. And it is your job to work with us to get the solutions balanced between affordability, reliability, and clean. And I really think we need a sense of clarity there,

because I will -- if you think about it, how freeing it is for me, if I know I have to retire and replace every plant by 2050, you just tell me what you want me to build; I'll build it. You tell me what you want the system to look like; I'll make it look like that.

So I think that we need some certainty. I mean, even these environmental rules and the carbon rules, we don't know what the rules are. And that makes it difficult. We're sitting here today, having spent money on scrubbers to take SO2 out, trying to figure out, well, how do we operate them? Is the rule in effect or not in effect? Because the court hasn't really mandated yet the ruling.

What I seek, just as any business person seeks, is certainty about the rules, certainty so that I can get about my job of providing affordable, reliable, clean electricity 24/7.

CHAIRMAN FLEMING: Okay. I was going to say -- I mean, you're saying legislation, a clear path, and I certainly understand that. Doesn't that take the public being very much aware of what is needed for that clear path, to get behind the elected officials? And if you agree with that, are you all doing anything to help really bring about that

education? I guess a bit of what Commissioner Clyburn was talking about.

MR. ROGERS: I think one of the things we have said to ourselves -- and I'm thinking about conversations that Keith and Ellen and I have had -- we need to do a better job of educating our customers, we need to do a better job of educating our communities we serve, we need to do a better job of educating those in elected office. And that's why this kind of meeting is so important, that we're having today, because at the end of the day we can sit in our offices and think about these things, but if we're not out talking to people and sharing ideas and developing some consensus as to the way forward, we won't move forward.

So we have actually or are in the process of developing websites, educational material, so that we can do a better job of really defining the problem and the questions, and helping people get engaged in this, because it helps all of us to have a very informed electorate, and unfortunately I don't think we've done a good enough job educating people of the need to move forward at the speed that we believe we have to.

CHAIRMAN FLEMING: Okay, thank you. Any more

questions?

[No response]

CHAIRMAN FLEMING: If not -- [indicating].

MR. TRENT: Madam Chairman and Commissioners, let me first echo Jim's appreciation and thanks for this opportunity to appear before you. It's important for us to have this opportunity and we hope that it's valuable for you, as well.

One area that we, as a company, have focused on quite a bit, and I personally focus on a lot, is the area of climate. And one theme that I think we've heard today, both from the Commissioners as well as Jim, is the theme of uncertainty. And that certainly is a theme that plays out in the carbon arena, as well, and climate change. It plays out in terms of timing.

At this point, I believe, we believe, that we will have climate change legislation. Both presidential candidates have indicated that climate change legislation is something they want to pursue, and both of them have indicated that cap-and-trade appears to be the right model for them to pursue.

So with that context, I think we're going to have climate change legislation. But the question

in my mind is when, and what will that look like?

With an economy that's weaker, I think that makes it more difficult to pass climate change legislation, so that may push it out to 2010, 2011. We really don't know, but I do think that we will see it in the future. The other big question we have is what's it going to look like. And when I think about that, I think it's critical that we balance two things. I think we do need to reduce greenhouse gas emissions, and we need to do it in a significant way. We need to do it in partnership with the international community: China, India. We need significant reductions in greenhouse gas emissions, but we need to do it in a way that's economically sensible. And it needs to be economically sensible from an economywide standpoint, but also we need to think very, very carefully about the impacts that we'll have on our customers and the impact on the rates that they're going to pay.

And so we have been involved -- we've tried to be leaders on climate change legislation because we think it's the right thing to do, but also because we think it's important that we are in the arena to try to shape that legislation and make sure that

our customers are treated fairly. One of the things that I hear, on occasion -- and unfortunately, we live in a world of sound bites -- but I hear the statement, "Well, the polluter needs to pay, and we're not going to grant any allowances to those utilities who are the polluters." Well, there are a couple of big flaws in that. One, for the most part, where coal plants are located and here in the Carolinas, South Carolina and North Carolina, our customers depend on coal for more than half of their electricity. So here in states like South Carolina, North Carolina, and the other states we operate in, those are cost-of-service states and it's our customers that are going to bear the cost if we put this burden on without creating a transition period. So it's not the polluter that pays; it's the customers who are going to bear this cost. So that's one flaw. The other flaw is, you know, we built these plants carrying out both state policy as well as federal policy. The Fuel Use Act back in the '70s actually banned the use of natural gas to fire generation for electricity, and with Three Mile Island and other events, we just have not been able to build new nuclear plants in a long time. So we find

ourselves where we are because we have carried out state and federal policies. So I guess I take some concern away from a sound bite like that, and it takes awhile to really educate on that front, but we are trying to do that.

In reaching a balanced approach that balances the environmental needs with the economic needs, we have a model that we think worked in the past very, very well. That was the acid rain model. The way that that model worked was, initially, allowances were granted to utilities, and the value of those allowances was used to give us a bridge or a transition period so that we could clean up our fleets over time, without our customers bearing tremendous rate impacts initially, because we were granted the allowances. By 2010, we believe -- we're projecting that we will spend, as a company -- Duke Energy will have spent $5 billion cleaning up our fleet with respect to SOx, NOx, and mercury, and we will have reduced those emissions by 70 percent.

That's a success story. And we've done that without having tremendous rate shock on our customers. And the reason we were able to do that was because we had this good transition period

which enabled us to build and clean up our fleets, but we didn't at the same time have to pay this, in effect, tax along the way.

That's the type of model -- and the reality is, end result is where you're trying to get to -- two end results, one is to reduce your emissions but to do it in a way that doesn't hit your customers in a really tough way. So that's what we're trying to do.

We may have created some confusion, in some quarters at least, in our opposition to the Lieberman-Warner-Boxer amendment that was recently before the Senate. We support climate change legislation, but there are wrong ways of doing that and we felt that the Lieberman-Warner-Boxer amendment was not the right way to do it, and the reason we felt it was not the right way to do it was because we would've had to have bought a majority -- in the range of 60 percent -- of the allowances we would need to continue to run our plants. And we're going to have to run those plants. We can't just shut them down.

The result of that legislation would have had tremendous impacts on our customers throughout our five states that we operate, but specifically here

in the Carolinas our calculations were that if carbon had about a $30-per-ton price on it -- which is within the realm of reasonable price -- that would have resulted in a rate increase of about 16 percent here in the Carolinas for our customers. And that's a rate increase that's immediate. It's also a rate increase that doesn't result in any new equipment or any actual reductions in emissions. It's simply an additional burden on top of the customers. And we just felt that that wasn't the right way to approach legislation, and so we opposed it. Fortunately, it did not progress through the Senate. And one ray of light that we saw from that was that immediately after that action, there was a letter signed by ten centrist Democrat senators who sent a letter to Senator Boxer and said, "We support climate change legislation, but this isn't the right way of doing it." And it is our hope that this centrist movement is going to provide for us the vehicle for actually getting good climate change legislation that meets the twin goals that I've talked about.

So we are actively engaged on that front. And part of the active engagement that we have launched is in conjunction with other companies in our area

and across the country -- which we call Team 25. And the reason we call it that is that there are at least 25 states that depend on coal for more than 50 percent of their electricity. So we have teamed up with those states, or companies representing customers in those states, to try to get good, economically sensible, climate change legislation.

One keystone of that effort is to make sure that allowances or the value of those allowances is used to protect customers. And we've been very, very clear that we're not seeking allowances to benefit us. And in fact, we are very, very comfortable with federal legislation that makes it very clear that the value of those allowances would go straight to our customers and for the benefit of our customers, and the fact that the Commission -- commissions in our states would have control of and make sure that the value of those allowances goes to our customers.

So we are engaged in that effort, we think it's critical that we remain active there so that we get the right legislation for our customers, and we will continue to do that.

But, Madam Chairman, you raised the issue of education, and this is clearly an area where we

need to continue to educate all up and down, from customers to regulators and legislators on the state level, and certainly at the federal level, as well. So we are very, very engaged in that process and will continue to do so.

I'm happy to answer any questions or we can turn it over to Ellen.

CHAIRMAN FLEMING: Yes. Any questions?

COMMISSIONER HAMILTON: Madam Chair, just a comment on the information that you've given us, Keith. I think it's very valuable. I happen to be a part of a committee that represents Southeastern interests of a NARUC committee that met with Lieberman and Warner on the climate change, to try to put forth some protection for the Southeast. And Duke's presence, Mr. Rogers' especially, was well recognized on that committee. So I can say that you have been working real hard, and all of us appreciate it.

We have a commissioner that we just lost in North Carolina, Commissioner Kerr, had tried and was working on the coalition of the same 25 states you talk about -- you're probably aware he was working on that -- and he was making progress, and this is something that somebody needs to move in

from NARUC and pick up to continue that. We all have a lot at stake in this matter, especially those of us in the Southeast, and we need to do everything we can to help protect the rates that we have, as favorable as they are, instead of having the credits go somewhere else and those folks benefit and we have to pay the bill.

So we need to work -- I know we can't work closely together, but you can with ORS and they can keep us informed, and it's very -- but this is extremely important.

MR. TRENT: I appreciate your comments, Commissioner Hamilton. And let me state that we have been very appreciative of the work that NARUC has done and the work that you have done on that committee, and certainly Commissioner Kerr -- former Commissioner Kerr. I guess he's not former -- well, he is former now.

MS. RUFF: He's former now.

MR. TRENT: One thing I would say is NARUC has been a very positive influence from my perspective, and one of the proposals, as you know, from NARUC, is that any allowances be granted to the load-serving entities to make sure that the commission has the ability to control that value so that it

will go to the consumers. And we support that very, very fully and we think that's a great approach.

And quite frankly, the voice of NARUC and the voice of Commissioners in Washington, D.C., is much more powerful on that front than from us, quite frankly, because when they hear us they always sort of ask in the back of their mind, well, there's something in there for the utilities; they're trying to help themselves here. So when they hear the voice of NARUC and of commissioners, it's a very powerful voice. So I would encourage you and members of NARUC to continue to be active there. I know that we are going to need to have someone come in and sort of fill Commissioner Kerr's role within NARUC to carry that banner, and so I'm hopeful that that will happen.

COMMISSIONER HAMILTON: I'm sure it will.

MR. TRENT: Yeah.

CHAIRMAN FLEMING: Any other questions or comments?

[No response]

CHAIRMAN FLEMING: I would just like to also add, I think -- I know communication is -- has to be a little bit different in our State, but I think

these issues are so important to all of us, and we are all actively involved in NARUC, but having some small group educational sessions -- well, just like today, but with people like yourself who are really working very closely with this, I think would be very helpful to us, as well --

MR. TRENT: And I hear you loud --

CHAIRMAN FLEMING: -- in keeping abreast of this, you know --

MR. TRENT: Absolutely.

CHAIRMAN FLEMING: -- and education even going to the general public.

MR. TRENT: Sure. I could not agree with you more. And a couple of things we are doing -- we will be hosting an energy summit, I guess -- is it next week, Ellen?

MS. RUFF: Uh-huh.

MR. TRENT: -- here in North Carolina and in South Carolina, and we'll be talking about many of these issues. But another thought I have is we just need to go out to small groups, as you mention, and do that in a very disciplined and methodical way, and just make sure that we're getting this message out very fully. And I've got some ideas on that. I need to talk to Ellen about

them first.

MS. RUFF: That'll be good. Thank you, Keith.

MR. TRENT: But we do need to do more on that front, and we plan to do so.

CHAIRMAN FLEMING: Ellen?

MS. RUFF: Thank you, very much. It's always a real pleasure for me to be here, this morning. I really like being in this seat, as opposed to that seat [indicating], so it feels pretty good on that front. I bet Jim would agree with that.

I want to talk about, just briefly, a couple of sort of key issues with regard to our generation projects that are online or in process, and just give you the status of those.

With regard -- and this is, of course, the nuclear plant that will be proposed for Gaffney. We have a combined operating license that says it's been filed and accepted by the NRC. And they have indicated to us that we could get that license by early 2012. We are still hearing from the NRC the 42-month period or longer, with regard to a review of the license. So whenever anyone says, "Well, how quick will it be?" We can have about four years for the regulatory side and you have that construction period. Obviously, you're in the

midst of negotiations. So we're working well with the NRC. We have a good team on both sides, internally and externally, reviewing the license application.

And for some of us that were involved in the earlier time period when you had -- first you got a construction -- had a permit for construction and then you got an operating license, this should be more streamlined, even with the 42 months. So we are grateful for that.

We have not yet concluded our negotiations with the vendor. We're in the process of doing that, very near to completion. So we would expect to have a cost estimate that's public very shortly. Says the fall of '08, but as soon as we conclude that. Our concern has been that, with the public estimate, we want to not have it jeopardize our negotiations with the vendors, so we're getting close.

The next step in the process will be for us to file for a certificate of CPCN and a base-load review application. We had initially hoped to be able to do it in the fourth quarter of '08. It looks like it will be now the first quarter in '09. And when we do that, we'll do it in South Carolina

-- we'll file for the certificate in base-load -- and then immediately we'll follow it at the same time, file in North Carolina. Because that statute is unlike what we used to have, where if you got a certificate for your plant in one state, really didn't file anything in the other state until the plant came online and you went in for a rate case, and then you determined whether or not and how it would be put in rates. We have earlier assurance with the base-load review in North Carolina, because obviously the certificate will come from this State.

So we're moving forward on the project activities in order to try to preserve the commercial operation date of 2018. That involves working with the suppliers and vendors, also involves working on the permits, focused on the applications. And when anybody ever asks me -- and I spend a fair amount of time talking to local groups. I had an experience this week of going to a college and talking about -- actually, it was to be on sustainability and we talked about energy choices for generation, and I think everyone should do that. These kids are 20 years old and very focused on where we will go, over the generation

periods. Incredibly interesting. But whenever anyone says, "Well, with nuclear what's the biggest issue today," for me I think, although safety was an issue that certainly was raised back in the '80s, high-level waste, safety, how will we deal with nuclear, I think most folks today will say it's the cost. How will we deal with the increasing cost that Jim was talking about earlier? How will we deal with having that big slug of costs that comes in if you're building two units yourself.

We dealt with that, certainly, last time around, when Catawba came online back in the '80s. We had a levelization period that lasted. There's a significant concern over how we will manage the cost. And although we have a very good statute here in South Carolina that we passed -- it's less than two years ago. Some days it seems like 20, but it's actually less than two, last session -- a really good statute, showing support for the construction of nuclear, if you look across the country and you look at some other states in comparison, like Florida, Florida doesn't build coal, so they've got a very aggressive statute for building nuclear, and you can show it can be very

supportive. The same or similar in Georgia and in Virginia. And it isn't that we don't have a good statute here; it shows how quickly things change, and the need to address, as Jim said to be flexible, in finding a way to share the risk and share the cost.

We focused on the two bullets that are listed here -- one is the federal loan guarantee program that's the DOE program that, at least currently today, has a cap of about $18 billion. If you look in everybody's estimates that are planning on building these nuclear plants, availability of $18 billion is going to run out pretty quick. It expires at the end of '09 or in September of 2009, and certainly there's a focus on attempting to increase that cap, see how it will be used. But as in all things where there is a finite amount of money, getting in the queue filing for that -- and we're certainly in the process of moving forward -- they will be very interested in how the states, in particular, are supportive of nuclear. What are signals that get sent.

And I think that's a really important issue, because although we think, as we look at the cost and we compare, certainly construction work in

progress is almost -- it's an essential thing to have, in order to be able to build nuclear. But beyond that, we look for the additional financing that's available that will help to lower the cost. And the federal loan guarantee program is one of them. So as we discuss, as Jim did this morning, the idea of regional generation, it's really the idea improving all of our positions here in the Carolinas in trying to lower the cost and share the risk that is associated with nuclear.

You know, the way we have it in place here in South Carolina, it is a terrific statute. It is such a significant cost with regard to building two 1,100 megawatt units, similar to the ones, say, we would have built at Catawba. So cost -- to me, when I answer the question, it's about cost.

And I was interested -- I guess it was Commissioner Clyburn's question about, "Well, what kind of generation does the public like?" When we were doing public hearings around Cliffside for coal, we had the pleasure of having six public hearings instead of three, and many of the folks that came -- and I mean very intentional people with thoughts, very concerned -- mostly focused on carbon. But when you would say to them afterwards

-- a lot of them were Jim's and my neighbors, actually; they came Charlotte out to the western part of the state for those hearings -- "Well, if you have a problem with carbon, how do you feel about nuclear generation?" And the answer was basically, "Don't like that either." And I think it is an issue that is such complexity, it needs not to be all about what we like, individually or in groups, but about what we need, in order to be able to provide electricity that Jim was talking about reliably, affordably, and in a clean manner.

So federal loan guarantees are something we're talking about. We're meeting and talking about it, exploring how it will work. It's kind of hard sometimes, because we all pay the DOE in order to put our high-level waste at Yucca Mountain. Well, we haven't done that yet, have we? But we have paid for it. So, although we rely on the federal, it's important, as part of the fix, that at the end of the day it will be the state support that will make it very important with regard to whether we go with nuclear.

Securitization as a potential financing vehicle, the last one that's there that's listed. It's been used in other states mostly for stranded

costs, also been used for some environmental projects. I'm not a finance person. It's pretty complicated. The end of the day, it actually provides the lowest cost to the plant, but it is, generally speaking, in the simplest description -- most of you, I know, are aware -- it's a non-bypassable charge; once the legislation is passed, it's attached to the customer's bill. My guess is that's not going to be a very popular approach in some circles, and hard to get through, unless we have a real will to do that.

So I'm going to talk a minute about Cliffside and I'm going to make a couple of general comments after that. We are moving forward with Cliffside. We are in construction. We do have an air permit from the State of North Carolina. We are on target for a 2012 in-service date.

And never complete discussion without talking about the air permit. We have a permit, that's why we can be in construction. We had to get that first. We have it. But certainly, once the federal agencies moved, the courts moved to eliminate the CARE standard, we are participating in a voluntary mercury MACT assessment that was submitted on July 3rd to the Department of Air

Quality in North Carolina. We also have a federal lawsuit. And Jim mentioned that earlier. Plaintiffs submitted for summary judgment; we moved to dismiss. The trial will be in 2010, if there is one. That's a long time, a lot of money spent, a lot of uncertainty.

We are very comfortable with where we are in terms of the legality of what we have, but I think you get to address the question almost every time with regard to where are you with coal. We will expect to hear back from DAQ. We'll have sort of an answer publicly as to where they think the mercury limit should be. Very few plants in the country have a mercury limit in their permit today. EPA will clearly act in a couple of years, but the state has its own involvement and is interested in a voluntary proceeding, and we are participating in that, because what we do know is we have the best equipment on Cliffside that you could have. There is no discussion about what equipment we should have. It's what should the permit level be for mercury.

So there will be an administrative permit appeal. We're in the midst of all the legalities around the permit that we know -- we knew would

occur, even without the action on CARE and the voluntary MACT. But I think whenever you talk about coal, you have the issue related to what will be the impact of the federal legislation on carbon. When I made my speech to the college students -- it really wasn't a speech because I talked for 20 minutes and answered questions for almost an hour and ten minutes -- I had a slide that said about coal that it was affordable and reliable. And I think if you look today and you look at the price of coal -- it was $50 a ton; it's now $150 -- and you add a carbon -- I won't call it a carbon tax -- a carbon charge on top of that, you begin to look at the affordable question and say how affordable is it, and it's as affordable, perhaps, as we, as a country, want it to be, in terms of decisions at the federal level.

And I thought it was a great question this morning about what is it we see that would affect overall construction of generation? What is it that, you know, keeps you awake at night, or what do you think about? I think certainly the thing that I worry about the most is that we will get so consumed with the conversation and the details, that we will get into a gridlock that will not

allow us to make the decisions that we need to make.

We need to focus on how we will build nuclear, we need to focus on the cost, need to focus on sharing the risk, and we need to work together. At the same time, in the past we've always competed for customers, certainly on the wholesale side, but we're at a point in time that I think is hugely critical that requires leadership at the state and federal level and involves the state, perhaps most importantly, standing up, both from this Commission, but from the legislature, and from our stakeholders, customers, and saying this is what we need to do. We could waste three or four years waiting to decide. That will be too long. That keeps me awake, that we won't make a decision.

A couple of other things, just to mention, that will be, certainly, issues I think in the future. If we move to either a regional type of generation approach, transmission will be an issue that will be important. Duke is involved in a joint venture in Indiana, a very large transmission line. We haven't done a lot of really large transmission work here in the Carolinas in recent years, and haven't needed to. We have a great

system. If you're going to change the approach, you may need to change what you look at with transmission, and how you do it.

And I think, additionally, an issue that we all have to remember and talk about that does affect generation planning, and that's the issue of water. Certainly have been through the drought in recent times. We've got a lot of water in Charlotte. We feel pretty good about that. But over Keowee-Toxaway in South Carolina, we are still in what is best described as the most extreme drought situation.

So I think certainly from our business side, that issue of water is there, and we are working with the communities and others on the issue of water. And I think water will be a very significant issue in the future, along with these issues related to generation.

So it requires us to work together and figure out the best way to do it. Sometimes folks have said you just did the base-load review. It hasn't been two years, both states. Things are changing so quickly, costs are rising in a way we haven't seen before, and actually very little crisis that most people see today in terms of blackouts or lack

of electricity. So the question is why is it really a problem. It is an issue with folks that know what they don't like, not so much an issue with folks as to what they do like and what they need. And to think very quarter-to-quarter, we think, sometimes, and it will take us so long to build this nuclear plant by 2018 that it is imperative for us to focus stakeholders' attention, public outreach. We do talk about it and we will do that with other stakeholders, find ways to do it. It's a complicated subject, finding a way to make it appealing to people to discuss. It's challenging.

But I think it is our job to be sure, as well as this Commission, the legislature, to be sure people understand what the trade-offs are and what the risks are, and to establish the rules of the road so that we know what we need to build.

I think that summarizes my comments.

CHAIRMAN FLEMING: Thank you, Ellen. Any questions?

COMMISSIONER WRIGHT: Yes, Madam Chairman.

CHAIRMAN FLEMING: All right. Commissioner Wright?

COMMISSIONER WRIGHT: Good afternoon. Really,

I appreciate you all coming. This has been very informative. Do you think -- and this could be as a group, too, if you want to answer, if someone has a different opinion. Do you think that the federal government is going to take a harder look at the federal incentives that you were talking about that were established under EPAct, and maybe try to -- are they talking now about maybe enlarging it and extending it?

MS. RUFF: Keith may know more. My experience from talking to folks here, who are -- they're definitely doing that. We're involved in that discussion. It's just been eight years or more since we've done -- so I don't want to have a lack of knowing that it's going to happen. It needs to happen. Keith probably knows more about that.

MR. TRENT: Well, I don't know if anybody knows more, actually, but in terms of federal incentives, the focus has primarily been in the renewables area, quite frankly, and doing extensions and that sort of thing. But we are starting to see more and more momentum for incentives and for, specifically, loan guarantee and other sorts of incentives on the nuclear side, as well. And quite frankly, I'm starting to see

more and more people recognize that if you're going to be serious about environmental issues, you've got to be serious about nuclear, and to do that you're going to have to get the federal government involved. So hopeful signs, but still a lot of unclarity there.

COMMISSIONER WRIGHT: Okay. Thank you.

CHAIRMAN FLEMING: Any other questions?

[No response]

CHAIRMAN FLEMING: I keep thinking about the word "education," as all of you have spoken today, but especially on the issue of cost. I think all of us well understand the cost that we're looking at. We want reasonable, reliable, and clean energy -- I like adding that third part to that. But we know that reasonable is probably not going to be what the general public is thinking of reasonable. What they're thinking in terms of is what they're paying today. And we all know, to get to where we need to be, we want it to be reasonable -- in my mind, I think -- in comparison with other areas of the country. But that has got to be a major -- the general public has really got to understand the underlying reasons of what's causing that rise in cost and the needs. And I guess -- I like the idea

of the fact that you are speaking to college students, but what are you doing to educate people more of your age? The people who came to protest at the coal plant?

MS. HEIGEL: I take exception to that.

[Laughter]

CHAIRMAN FLEMING: You didn't speak, Catherine. These three spoke, and they're the ones that said their neighbors came out. I mean, you're that GenX or Y?

[Laughter]

COMMISSIONER WRIGHT: They're just chronologically gifted.

[Laughter]

CHAIRMAN FLEMING: So I just wonder if Duke and some of the other industries -- what you're doing to really get the word out to the general public. I know you're working hard on the federal and state and regional levels to officials, but it's the general public that really has to understand this.

MS. RUFF: Well , I'll start since I mentioned the neighbors, and I'm the older person that had conversations. Actually, what's interesting, Madam Chair, is that really the conversation with college

students is really rather rare. We haven't done as much of that as we might. We have consistently reached out to customers, in particular, you know, working with large industrial customers. We have the public sessions that we've been trying to address. We've met with environmental groups. I reach out individually. Most -- a lot of my conversations, and this is going to sound strange, are in the grocery store. People want to talk about what is happening with regard to that.

We've met with not only industry groups but business groups, speaking several times a week, going to them, talking about impact and talking about costs. We will need to be more systematic about doing it, and finding a way to facilitate the communication of that.

It's been very not one-on-one but one-on-a-large-group or an industrial group or a customer group, meeting with customers, sending those messages. On Team 25 we've spent a lot of time with individual customers talking in particular about the rate impacts. So we're working on that to find a good way.

MR. TRENT: I would add to that that this is an issue that we're facing in all five states that

we operate in, and we're talking about what we can do to make this happen, because I agree education, from my standpoint, is the number one thing that we've got to focus on.

We're talking about things like maybe establishing a director of education that would report to each of the presidents, to make sure that we are keenly focused on that and that we are very disciplined and that we make it happen. So we're going to pursue those types of things.

You know, one area that, actually, I should turn over to Jim to talk about, is getting much more savvy in the way that we use the Internet and blogs and that sort of thing, and we are looking at that, because I think that's the way a large segment of our population today gets their information and learns about issues, and so we're going to get a lot better at that. I might turn it over to Jim on that point.

MR. ROGERS: This is sort of, from my personal standpoint, something I think -- as you see the news media and the number of people that cover our industry shrinking because of economic reasons, the ability to really get our story out is more difficult now maybe than before. But I think you

have focused in properly on what is a very important consideration and issue for us, and that is education.

If you put it in the context of the last 15 years, where the real price of electricity has actually come down, it hasn't been something that's on anybody's mind, because it's been a smaller part of the disposable income. What has happened in the last three years or the last five years on natural gas, you've seen natural gas go up over the last five-plus years almost three to five times. So if people are buying natural gas for their home, they see a huge increase. Recently with gasoline prices going to $4, people see, "Oh, my goodness." And I think the average American doesn't really differentiate between electricity, natural gas, and gasoline, because they see the whole energy costs are going up dramatically, while our part of it is actually going down. And it's maybe unfortunate, but the reality is our prices are actually going to go up in the future. But today, the fact that they have come down has been masked by these other rises.

So lots of work to do. And we see it clearly as one of our primary missions to educate people.

And we really believe the continued electrification of America is a way to make our economy more efficient and to make it a low-carbon economy, particularly with plug-in hybrid and electric cars, so we're going to play a pivotal role in the future of this country. But at the end of the day that's going to mean more base-load plants, and it's going to mean more building. So we need to make sure people understand, if you want a more efficient economy and you want a low-carbon economy, that the electric prices over time are going to go up.

CHAIRMAN FLEMING: Okay.

COMMISSIONER WRIGHT: Madam Chairman?

CHAIRMAN FLEMING: Yes.

COMMISSIONER WRIGHT: I like to follow up a little bit while we're talking on education. I mean, we hear a lot about conservation and we hear a lot about efficiency, and everybody is for it. I don't know anybody who's not, you know. But at the same time, you know, it's like my wife and I were out at Lowe's, and the refrigerators are huge, compared to what we used to get, even though the efficiencies are, you know, supposed to be better. You're getting bigger TVs. Everybody has multiple computers in their house. You know, the homes are

even bigger, even though some of the codes are getting more green, we hear. So the need for base-load continues to increase, regardless of efficiency and conservation. I don't think that message is getting out, the way it needs to be, because you hear everybody -- neighbors walking down the street, people that hit you at church or in the grocery store, and they're talking about, well, conservation and efficiency, conservation and efficiency, but they don't understand that that only can go so far. And I know you've been on programs nationally. I've even seen you on CNBC and things like that, on programs where you tried to address it. But is that getting out further? Is there a plan to get it out broader?

MR. ROGERS: We're working very hard to educate the public that -- there's two things going on that confuse people. If you look back over the last 20 years, we've improved the energy efficiency of our economy on a GDP basis 3 percent every year. That is in part driven by the fact that our economy has changed. It's not as energy-intensive as it used to be. So we're making real progress. We're actually de-carbonizing our economy by about 4 percent a year for the same type of reason.

A study that I saw yesterday in EEI was fascinating to me, in the sense that, as a utility, we can only do so much. The real, big changes that make our economy more efficient really go to, as you suggested, to the building codes and the appliance codes. It's those two together. And I think that it's a combination of all these things working together, plus people have it completely -- we're doing a lot of detailed analysis now, EPRI is, on what would incremental demand be if we went to plug-in hybrids, how much of our existing supply would be used more efficiently.

So there's a lot of moving parts to this, and it's not any single bullet that allows us to address this. It's a multitude of things, all working together. And I think over time, as these things work together, you will see -- and that's why one of our aspirations is to have the most energy efficient economy in the world. I think we're moving in that direction naturally, just looking back over the last several decades. And with more emphasis on it, we will accelerate it, because we are becoming more of a -- I mean, you use the example of the plasma TV or the bigger refrigerators. We are becoming more -- electricity

is playing a greater and greater role, going forward, and I think you will -- particularly as I mentioned a moment ago, the plug-in hybrid is just an example of that.

But even that alone is huge efficiency. When you compare the efficiency of an electric car to a gas-combustion, regular gas car today, huge improvement in the efficiency that would improve those numbers dramatically for our economy.

COMMISSIONER WRIGHT: Just to reinforce the point, even with all of that, the base-load need still goes up. And I don't know that the consumer really understands that, yet. And anything that we can do, to do that, you know, is going to help your opposition -- help reduce the opposition to what you're trying to do.

MR. ROGERS: That's a very important point. It's especially true, as Commissioner Mitchell said, in our part of the country because of the migration of people to the Carolinas.

COMMISSIONER WRIGHT: Thank you.

CHAIRMAN FLEMING: Any other questions or comments?

[No response]

CHAIRMAN FLEMING: Well, we thank you very

much for being here today. You really have given us some invaluable information and we appreciate your time. Hopefully, you will do this more often. As I said earlier, I think the informational and educational sessions are very helpful to us, and we very much appreciate your being here today.

MR. ROGERS: Thank you, very much.

MS. HEIGEL: Madam Chair and members of the Commission, we do thank you very much for your time today, and your interest, and we do hope to continue to have these sessions with you periodically, as we have done and been doing over the last year. We do see this as a good opportunity for us to raise issues that are of interest to us, and we think are of interest to you. So thank you very much for your time.

MR. ROGERS: The next time, she'll bring a younger team.

[Laughter]

CHAIRMAN FLEMING: She'll be telling us about what you're doing on the Web, on the Internet.

MR. ROGERS: There you go.

[WHEREUPON, at 12:25 P.M., the hearing in the above-entitled matter was adjourned.]

C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of all the proceedings had in an allowable ex parte briefing held in the above-captioned matter before the Public Service Commission of South Carolina.

Given under my hand, this the 14th day of September, 2008.

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Jo Elizabeth M. Wheat, CVR-CM-GNSC

ATTEST:

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Charles L. A. Terreni
CHIEF CLERK/ADMINISTRATOR